LORD ABBETT®

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Fixed-Income Insights

Rethinking Liquidity – A Lesson Learned from March 2020

We believe the credit market dislocation that occurred in March shows the need for a more flexible approach to portfolio liquidity. Lord Abbett's multi-sector bond strategy and Credit Opportunities Interval Fund may provide compelling alternatives for investors examining and understanding their liquidity needs.

by Andrew Fox, CFA, CIMA®

KEY POINTS

- Structural changes brought about by well-intended regulations contributed to the dislocation in credit markets in March.
- Liquidity premiums - the cost of converting an asset to cash - skyrocketed and conversion of investment assets to cash came at a price far below the market values of just one month earlier.
- Using an active, multi-sector credit approach may help to better navigate the kind of market disruption seen in March as the impact and subsequent recovery were not equally spread among fixed-income sectors.
- We believe investors should examine their liquidity requirements and determine when and how much liquidity they actually need. An interval fund could be a vehicle that may offer more attractive yields and diversification for assets that may be suitable for longer holding periods.

Well-Intended Regulations Contribute to a Structural Change

In our view, the regulatory shifts that occurred after the Global Financial Crisis (GFC) of 2008–09 have placed the U.S. financial ecosystem on firmer ground. That's all to the good, given the recent disruptions caused by the COVID-19 pandemic. As we have discussed elsewhere, elected and appointed officials both recognized quickly that the burden of the economic shutdown targeted at slowing the spread of the virus would fall on Main Street, not Wall Street.

But this is not to say that the impact of this nearly decade-old regulation has been uniformly positive. One need look no further than the virtual disappearance of liquidity in U.S. credit markets during the market tumult in March.

Events Since the Global Financial Crisis (GFC) that Lead to Structural Change

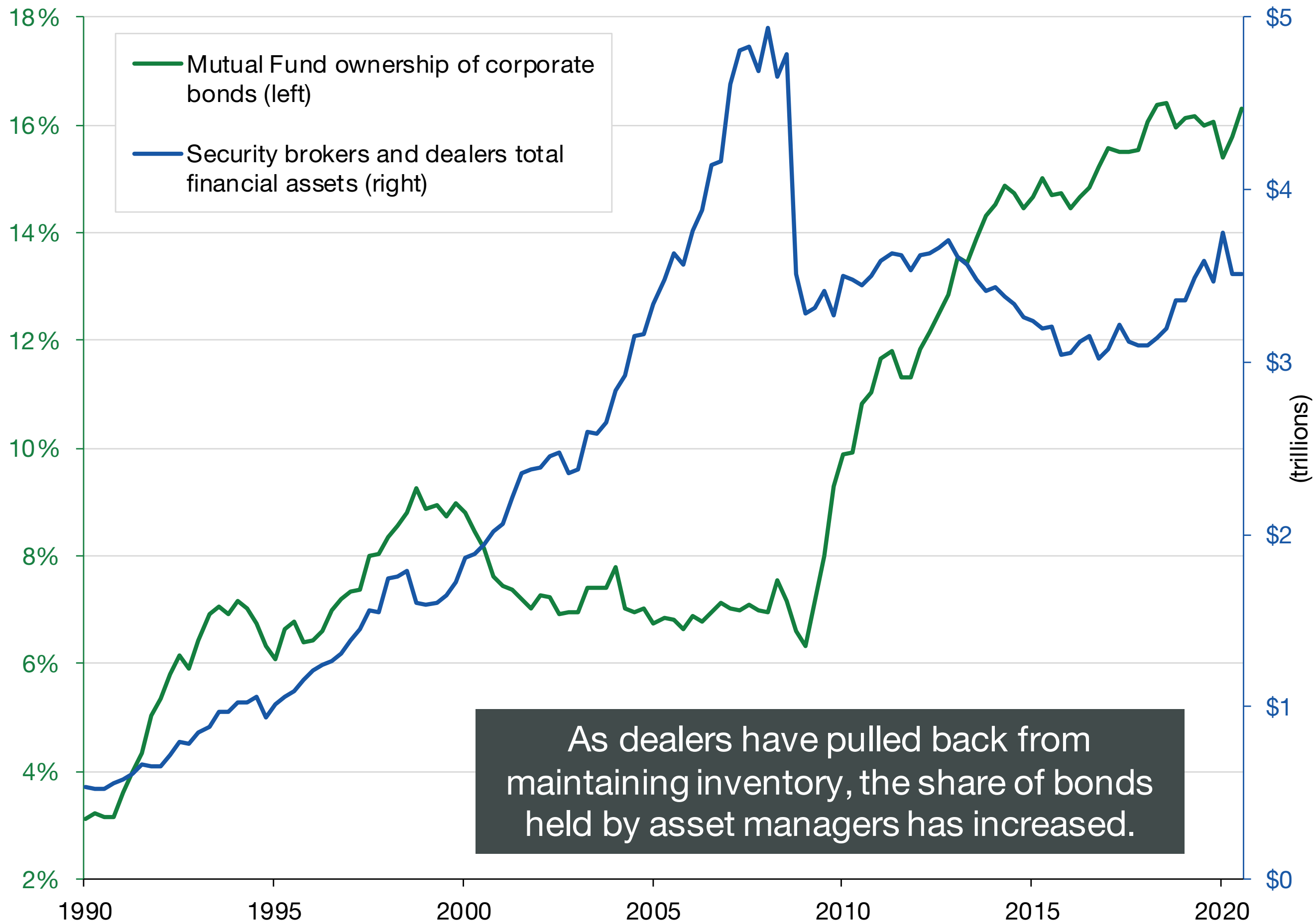
1. Central Bank Policy Drives Increased Borrowing

Since the close of the GFC, central banks have utilized extraordinary measures to stabilize markets and foster economic growth. Zero interest-rate policy (ZIRP), coupled with the now familiar quantitative easing have become the norm rather than the exception. While the aggregate goals of these efforts are well understood, they also have had the effect of increasing borrowing, driving outstanding debt levels to all-time highs.

2. Regulations Reduce Risk Taking

Regulatory forces are also at work amid moves to limit certain types of risk taking and prohibit others. Dealer capital committed to market making and trading has decreased markedly as a result, along with banks' and insurance companies' appetite for assets defined as less liquid, even as bond markets have increased dramatically in size.

Figure 1. Normal Fixed-Income Liquidity Mechanisms Have Changed in Recent Years



Source: Financial Accounts of the United States, Board of Governors of the Federal Reserve System. Data as of 09/30/2020. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

3. Market Participant Roles Change

As market roles have shifted, some investor types have assumed more prominent roles in certain markets. As dealers have reduced balance sheets and stepped back from providing liquidity to the fixed income market, many asset managers have filled the void. Both active and passive strategies have seen meaningful growth post GFC, pushing them to a point of greater market influence.

How the Structural Change Impacts the Cost of Liquidity

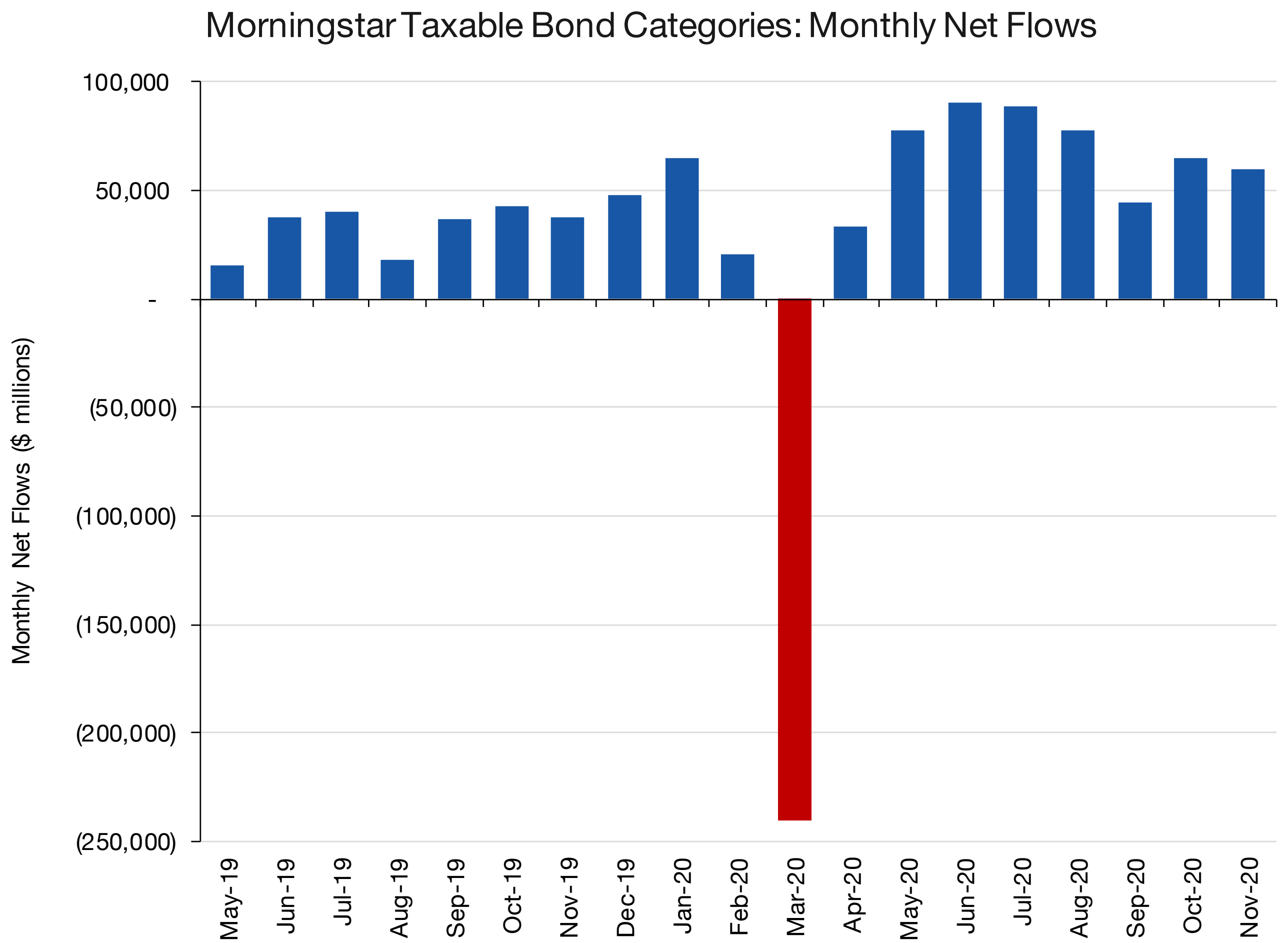
Asset managers have their own reasons for valuing liquidity highly. Because of the structural mismatch of offering short-term redemption options while holding longer term obligations, managers place a premium on liquidity. As investors tend to redeem during periods of market volatility, managers must maintain a high level of liquidity in anticipation of abrupt changes in sentiment.

When markets began to sell off in March 2020, dealers were unable to fulfill their historical buffer role. In the past, when markets became dislocated, market makers, proprietary trading desks and other entities acted as the primary conduit for risk; if their view was that a market shock would be transient, we assume they would bid for assets, expanding their balance sheets pro-cyclically to match their view of opportunity. But because of changes in the way banks carry assets on their balance sheets to comply with the current regulatory regime, they were limited or unable to do so during the late March liquidity event.

Without that robust intermediary buffer, trading instead occurred “end account to end account,” with dealers acting as agents rather than principals, attempting to match buyers with sellers rather than absorbing risk themselves. But because many end accounts had liquidity issues of their own, pricing continuity was far from orderly.

Figure 2. Taxable Fixed Income Markets Experienced Extreme Outflows in March 2020

Liquidity imbalance contributed to exaggerated price moves.



Source: Simfund. Monthly net flows into Morningstar Taxable Bond Categories, as of 11/30/2020. Taxable bond funds are those with at least 70% of assets held in taxable fixed-income securities. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment.

For investors who had "paid up" for liquidity, purchasing more readily saleable securities with the hope they would be able to transact more easily in an increasingly volatile market, this was a most unwelcome shock. While many asset classes did provide liquidity, it was available in the narrowest sense: these assets could be converted to cash quickly. However, that conversion came at a price far below the market values of just one month earlier.

Liquidity in Today's Market

There is no "quick fix" to the current structural liquidty challenges, in our view. Policy makers have been aware of the problem, having been reminded in a far gentler fashion back in September-October 2019 when repo rates climbed due to liquidty, and not solvency, concerns.[1] For investors, we believe several partial solutions exist, which may potentially mitigate a fair portion of the risk of episodes of reduced market liquidity and position portfolios to maneuver through market volatilty via a flexible, active credit management strategy.

Capturing Liquidity Premiums

Despite a benign environment for risk, lower-rated CCC bonds lagged the broader high yield market in 2019—the first time since 2001—in an environment of narrowing credit spreads. Why? Higher ratings generally mean larger deal sizes, which can mean greater liquidity, an attractive characteristic for investors. However, greater liquidity comes at a cost of lower yields and, as seen during March of 2020, may not provide readily available access to capital during times of severe market dislocation. Investors should consider the cost of lower yields when paying up for liquidity, especially given the structural changes mentioned earlier.

There are significant opportunities across credit sectors to capture liquidity premiums in segments that are not widely held by daily liquidity mutual funds or exchange traded funds (ETFs). Just as higher ratings are usually found on larger deal sizes, smaller issuers with lower ratings generally

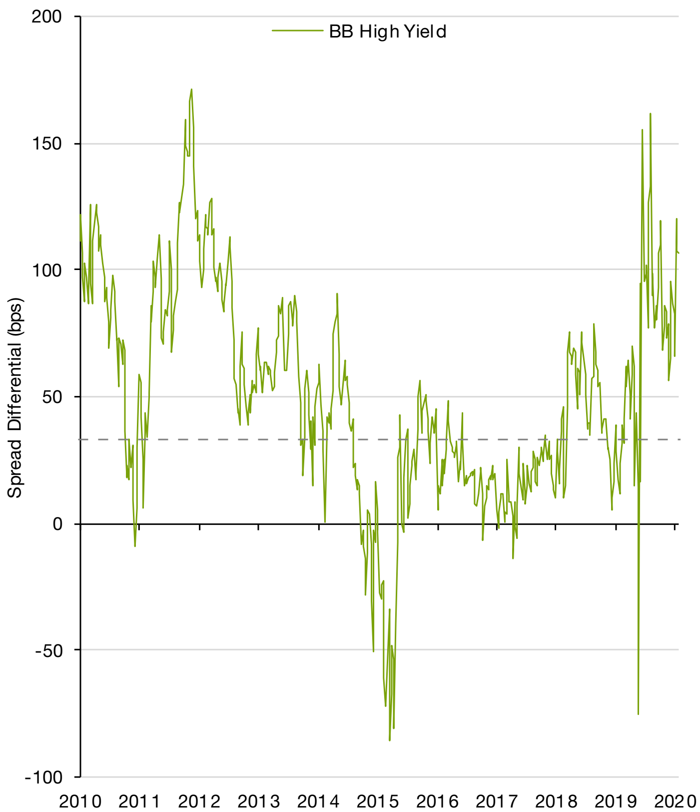
Figure 3. Liquidity Premium in High Yield Bonds

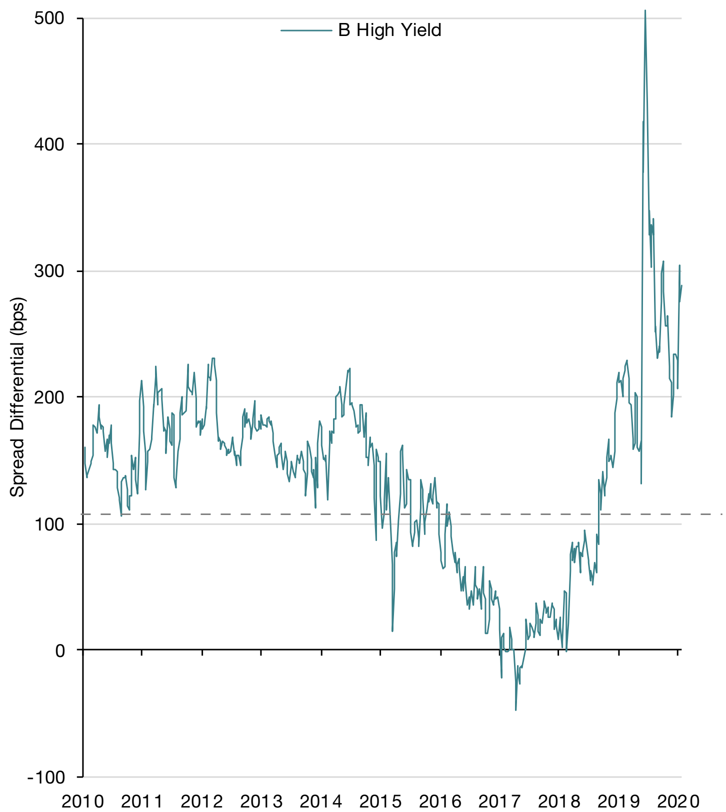
Additional spread available on smaller issues that are normally not widely held by daily liquidity funds and ETFs.

Spread Differential Between Smallest Quartile and Largest Quartile Issuers

Spread Differential: Smallest Versus Largest BB High Yield Issuers	
Long-Term Average Differential	+32 bps
Differential as of 11/19/20	+107 bps

Spread Differential: Smallest Versus Largest B High Yield Issuers	
Long-Term Average Differential	+107 bps
Differential as of 11/19/20	+289 bps





Source: ICE Data Indices, LLC. Data as of 11/19/20. Spread differential indicates the difference between the smallest quartile and largest quartile of issuers in the ICE BofA U.S. High Yield Bond Index. "Bps" stands for Basis Points. 1 Basis Point equals .01% (e.g., 100 bps = 1%). The historical data are for illustrative purposes only, do not represent the performance of any specific portfolio managed by Lord Abbett or any particular investment, and are not intended to predict or depict future results. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

provide more attractive yields (see Figure 3). The spread differential between large and small B-rated issuers is greater than the spread differential between large and small BB-rated issuers. That differential in the smaller, lower quality segment can potentially be captured by a strategy that nimbly allocates across a wider spectrum of credit and quality sectors, such as Lord Abbett's Bond Debenture Fund that is managed using a multi-sector credit approach, or the Lord Abbett Credit Opportunities Interval Fund.

A Multi-Sector Bond Strategy Designed to Take Advantage of Uneven Sector Performance

While most fixed-income asset classes suffered to one degree or another during the market disruption in March, the pain was not spread equally; the subsequent recovery has been similarly uneven (see Figure 4). A manager's ability to rotate among asset classes – a discipline Lord Abbett has been executing for decades – may help to better navigate through a tough situation, trimming assets that have held up well in relative terms to take advantage of dislocated prices in assets that have not.

Figure 4. A Look at Fixed Income Performance Before, and After, the Height of the March Volatility

Returns (%) for the indicated periods

Index Performance	YTD 2020 to 3/23/20	3/24/20 to 11/30/20	YTD 2020 to 11/30/20
U.S. Treasuries[1]	7.81%	0.41%	8.25%
U.S. Aggregate[2]	1.04%	6.26%	7.36%
Investment Grade Corporate[3]	-9.95%	21.50%	9.41%
Investment Grade Corporate – BBB[4]	-13.13%	25.61%	9.12%
High Yield Corporate[5]	-20.56%	31.14%	4.18%
High Yield Corporate – BB[6]	-18.09%	30.58%	6.96%
High Yield Corporate – B[7]	-21.63%	30.05%	1.92%
High Yield Corporate – CCC[8]	-27.74%	36.74%	-1.20%
Bank Loans[9]	-19.76%	26.44%	1.46%

Data as of 11/30/20. Sources: Bloomberg Index Services Limited, ICE Data Indices, LLC, and Credit Suisse. [1]Bloomberg Barclays U.S. Treasury Index. [2]Bloomberg Barclays U.S. Aggregate Bond Index. [3]Bloomberg Barclays U.S. Investment Grade Corporate Bond Index. [4]Bloomberg Barclays U.S. Investment Grade BBB-Rated Corporate Bond Index. [5]ICE BofA U.S. High Yield Bond Index. [6]ICE BofA U.S. High Yield Bond BB-Rated Index. [7]ICE BofA U.S. High Yield Bond B-Rated Index. [8]ICE BofA U.S. High Yield Bond CCC-Rated Index. [9]Credit Suisse Leveraged Loan Index.

Past performance is not a reliable indicator or guarantee of future results. For illustrative purposes only and does not represent any specific portfolio managed by Lord Abbett or any particular investment. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment.

Lord Abbett has been managing multi-sector bond strategies since 1971. We have dedicated and seasoned teams contributing to the strategy's ability to rotate among sectors in seeking to take advantage of disparate sector performance. The strategy leverages a rigorous fundamental credit approach in order to actively shift assets among sectors where we find the most compelling relative value opportunities. The result has been competitive returns across market environments (see Figure 5).

Figure 5. Lord Abbett Bond Debenture Fund Annualized Returns as of 9/30/2020

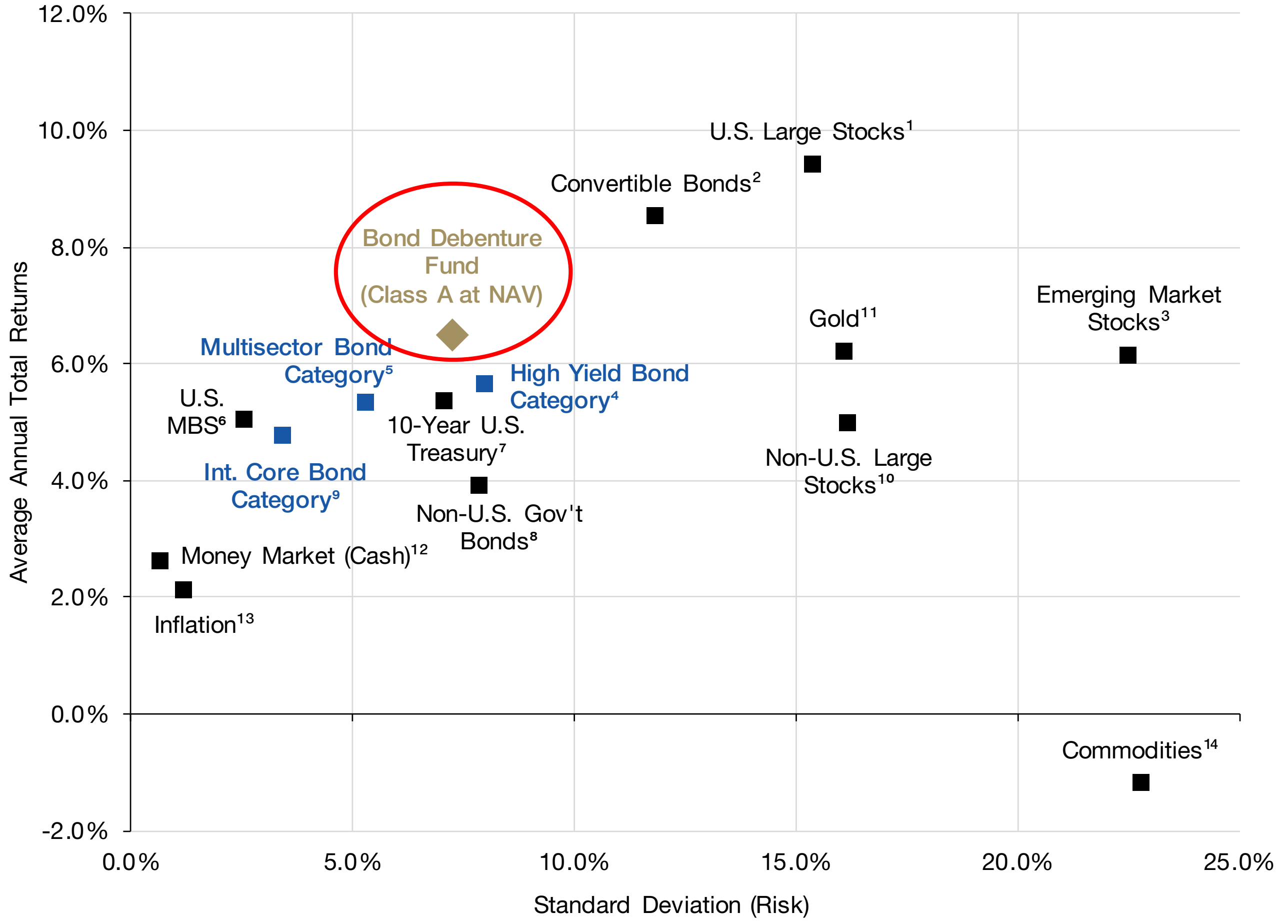
	1 Year	3 Years	5 Years	10 Years
Bond Debenture Fund (A Shares)†	3.19%	3.95%	6.08%	6.20%
Bloomberg Barclays U.S. Aggregate Bond Index*	6.98	5.24	4.18	3.64
Lipper Multi-Sector Income Funds Average**	2.89	3.35	4.43	4.35
Percentile Ranking (A Shares)	59	37	8	7
Arithmetic Ranking (A Shares)	205/347	113/305	19/254	8/124
Morningstar Multisector Bond Funds Average***	2.18	3.09	4.34	4.24
Percentile Ranking (A Shares)	47	30	6	3
Arithmetic Ranking (A Shares)	166/330	92/292	20/248	8/133

Expense ratio for Bond Debenture Fund A Shares is 0.79%. Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance quoted. The investment return and principal value of an investment in the Fund will fluctuate so that shares, on any given day or when redeemed, may be worth more or less than their original cost. You can obtain performance data current to the most recent month end by calling Lord Abbett at (888) 522-2388 or referring to our website at lordabbett.com.

†Fund performance is based on total return at net asset value, including the reinvestment of dividends and capital gains, if any. Returns with sales charges reflect the deduction of the maximum front-end sales charge of 2.25% applicable to Class A Shares while the returns without sales charge do not reflect the deduction of sales charges. All results are based on changes in net asset value and assume reinvestment of all distributions. Class A Shares purchased subject to a front-end sales charge have no contingent deferred sales charge (CDSC). However, certain purchases of Class A Shares made without a front-end sales charge may be subject to a CDSC of 1% if the shares are redeemed before the first day of the month in which the one-year anniversary of the purchase falls. The CDSC is not reflected in the Average Annual Total Returns. If the CDSC was included, performance would be lower. Please see the Prospectus for more information on redemptions that may be subject to a CDSC. There are no sales charges for Class F Shares. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Morningstar and Lipper peer group average returns and rankings are based on all share classes within the category and include the reinvested dividends and capital gains, if any, and exclude sales charges.
*Source: Bloomberg Index Services Limited. **Source: Lipper Analytical Services. ***Source: Morningstar, Inc. The fund is ranked within a universe of funds similar in investment objectives.

Figure 6. Lord Abbett Bond Debenture Fund Risk/Reward Profile Over 25 Years (as of 9/30/20)

The Bond Debenture Fund has had higher returns than most major bond categories, and less than half the volatility of U.S. stocks.



Source: Zephyr. **Performance data quoted reflect past performance and are no guarantee of future results. Current performance may be higher or lower than the performance quoted.** The Bond Debenture Fund performance is based on total return at net asset value, including the reinvestment of dividends and capital gains, if any, but do not reflect the deduction of sales charges. The maximum front-end sales charge applicable to Class A Shares is 2.25%. If such sales charges were deducted the performance shown would be lower. [1]Russell 1000 Index. [2]ICE BofA All Convertible All Qualities Index. [3]MSCI EM GR Index. [4]Morningstar U.S. OE High Yield Bond Category. [5]Morningstar U.S. OE Multisector Bond Category. [6]Bloomberg Barclays U.S. MBS Index. [7]FTSE Treasury Benchmark. 10 Yr. [8]FTSE WGBI Non-USD. [9]Morningstar U.S. OE Intermediate-Core Bond Category. [10]MSCI EAFE GR Index. [11]S&P GSCI Gold. [12]ICE BofA U.S. Treasury Bill 3 Mon. [13]IA SBBI U.S. Inflation. [14]S&P GSCI Index. Indexes are unmanaged, do not reflect the deduction of fees or expenses, and are not available for direct investment. Please see index and benchmark definitions in the disclosure section of this article.

Attractive returns are often achieved at the cost of increased volatility. However, a disciplined multi-sector credit approach that employs active management using specialized teams may be able to achieve a more appealing risk/reward profile, as shown in Figure 6.

Interval Fund – A Vehicle that May Offer More Attractive Yields and Diversification

Another potential solution may be to invest in a vehicle that provides redemptions at specified intervals, or an interval fund (see Figure 7). Investors in an interval fund normally receive a repurchase schedule that provides the dates on which shareholders can request to liquidate their shares by selling them back to the fund within a percentage range of fund assets. Interval Funds provide managers a clear window into their liquidity needs and, as an additional benefit, may be able to invest in a "steady state" for the long-term rather than maintaining a level of cash to facilitate pop up redemptions.

For investors, interval funds may provide further diversification and potentially more attractive yields versus traditional fixed-income by capitalizing on opportunities in less liquid sectors of the market. Interval funds generally invest across a wider range of investments, including lower-rated, less liquid securities that may offer more attractive yields, but these types of securities are riskier than higher-quality, more liquid securities.

Additionally, by preventing investors from pulling capital in the face of economic turbulence, interval funds may be able to prevent "mark to market" losses from becoming realized losses through forced sales.

Figure 7. Lord Abbett Credit Opportunities Interval Fund Versus an Open End Mutual Fund

	Open End Mutual Fund	Lord Abbett Credit Opportunities Interval Fund
Registration	SEC Registered; Subject to 1940 Act requirements	SEC Registered; Subject to1940 Act requirements
Available for Purchase	Daily, at closing NAV	Daily, at closing NAV
Redemption Liquidity	Daily, at closing NAV	Quarterly between 5% and 25% of its outstanding shares at net asset value
Investment Types	Predominantly liquid investments	Often includes less liquid investments

The Fund is structured as an unlisted closed-end interval fund. Limited liquidity is provided to shareholders only through the Fund's quarterly offers to repurchase between 5% and 25% of its outstanding shares at net asset value, subject to applicable law and approval of the Board of Trustees. The Fund currently expects to offer to repurchase 5% of outstanding shares per quarter. There is no secondary market for the Fund's shares, and none is expected to develop. There is no guarantee that an investor will be able to tender all or any of their requested Fund shares in a periodic repurchase offer. Investors should consider shares of the Fund to be an illiquid investment.

Although the Fund may impose a repurchase fee of up to 2.00% on shares accepted for repurchase by the Fund that have been held for less than one year, the Fund does not currently intend to impose such a fee. Please refer to the Fund's prospectus for additional information.

The Fund's ability to be fully invested and achieve its investment objective may be affected by the need to fund repurchase obligations. In addition, the fees and costs associated with investing in an interval fund may be significantly greater than those of other fund structures

Diversification Across Segments Generally Reserved for Institutions

Interval funds are not liquid when compared to mutual funds but may offer investors access to markets that have generally been more readily available primarily to institutional investors. As interval funds allow asset managers the flexibility provided by scheduled liquidity needs, they are able to invest in credit segments across quality, sector and industry spectrums long participated in by institutions. This expanded opportunity set may provide enhanced yield to investors looking for alternative methods to increase potential returns. The Lord Abbett Credit Opportunities Interval Fund is currently participating across twelve credit market sectors as opposed to a core bond strategy benchmarked to the Bloomberg Barclays U.S. Aggregate Bond Index generally participating in approximately seven fixed income sectors. Furthermore, core bond portfolios tend to be limited in terms of the opportunity set provided by the full range of lower credit quality instruments. Diversification into less liquid, lower-quality securities may potentially increase yield, but does not protect against the risk of investment losses, particularly when such diversification is across higher-risk securities.

Summing Up

So how might investors approach liquidity in today's market? We have a few suggestions. First, investors should be clear about their actual liquidity needs. If they are reasonably high, investors should be mindful of the costs of that liquidity "insurance premium," which comes in the form of lower compensation for similar credit risks. They should also be aware of what that premium actually pays for–generally speaking, the ability to convert assets to cash quickly, but not necessarily at a given price point, particularly in periods of stress. Investors may wish to consider a multi-sector credit strategy that invests across a number of different markets to limit the impact of sharp moves in one or several markets.

Second, for those with lower liquidity needs, be aware that their ability to provide liquidity to markets has a value, and that by committing capital for a longer period of time, they may potentially gain the opportunity to monetize that higher category of risk tolerance.

Lord Abbett has historically been adding value in multi-sector credit portfolios through a rigorous and active sector and security selection approach designed to take advantage of fixed income sector performance dispersion. Our strategies seek to benefit from the insights of multiple portfolio management, credit research, trading, quantitative research, and risk management teams dedicated across fixed-income segments. We believe the strategies we've just discussed could provide investors with additional tools used to supplement diversification, yield and liquidity management.

[1]The so-called "repo" market—a segment of U.S. fixed income that provides overnight funding for financial institutions–saw a spike in short-term borrowing costs on September 17, 2019.

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A Note about Risk: The value of an investment in fixed-income securities will change as interest rates fluctuate and in response to market movements. As interest rates fall, the prices of debt securities tend to rise. As interest rates rise, the prices of debt securities tend to fall. High-yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. Bonds may also be subject to other types of risk, such as call, credit, liquidity, interest-rate, and general market risks. Lower-rated bonds carry greater risks than higher-rated bonds. The principal risks associated with bank loans are credit quality, market liquidity, default risk and price volatility. While bank loans are secured by collateral and considered senior in the capital structure, the issuing companies are often rated below investment grade and may carry higher risk of default. Moreover, the specific collateral used to secure a loan may decline in value or become illiquid, which would adversely affect the loan's value. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer maturity of a security, the greater the effect a change in interest rates is likely to have on its price. No investing strategy can overcome all market volatility or guarantee future results.

Neither diversification nor asset allocation can guarantee a profit or protect against loss in declining markets.

Forecasts and projections are based on current market conditions and are subject to change without notice. Projections should not be considered a guarantee.

This commentary may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described above.

Exchange Traded Fund (ETF) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. ETFs experience price changes throughout the day as they are bought and sold.

Treasuries are debt securities issued by the U.S. government and secured by its full faith and credit. Income from Treasury securities is exempt from state and local taxes.

Standard Deviation measures the dispersion of data from the mean. Applied to a rate of return, standard deviation is an indication of an investment's volatility.

Indexes are unmanaged, do not reflect the deduction of fees or expenses, and an investor cannot invest directly in an index.

Morningstar Information:

The Morningstar Intermediate-Term Bond Average represents funds that focus on corporate, government, foreign, or other issues with an average duration of greater than or equal to 3.5 years but less than or equal to six years, or an average effective maturity of more than four years but less than 10 years.

The Morningstar Multisector Bond Average represents funds that seek income by diversifying their assets among several fixed-income sectors, usually U.S. government obligations, U.S. corporate bonds, foreign bonds, and high-yield U.S. debt securities.

The Morningstar High-Yield Bond Average represents funds with at least 65% of assets in bonds rated below BBB.

Fund rankings within the Morningstar Multi Sector Bond Category, which may change monthly, are based on total returns calculated by the ranking entity. Rankings do not take into account sales charges, if applicable, but include reinvestment of dividends and capital gains, if any. Morningstar total return percentile rankings for the specified periods are relative to all funds that have the same investment categories. The highest (or most favorable) percentile rank is 1, and the lowest (or least favorable) percentile rank is 100.

Lipper Information:

Fund Rankings within the Lipper Multi-Sector Income Funds Average include the reinvested dividends and capital gains, if any, and exclude sales charges. Rankings are based on total return and do not reflect the effect of sales charges. Each Fund is ranked within a universe of funds similar in investment objective. Source: ©Reuters 2020. All Rights Reserved. Lipper Analytical Services, Inc. is an independent mutual fund research and rating service. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper.

A Note about Risk

Bond Debenture Fund: The Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest rate risk. The value of your investment will change as interest rates fluctuate and in response to market movements. When interest rates fall, the prices of debt securities tend to rise, and when interest rates rise, the prices of debt securities are likely to decline. Longer-term debt securities are usually more sensitive to interest-rate changes; the longer the maturity of a security, the greater the effect a change in interest rates is likely to have on its price. The Fund may make substantial investments in high-yield debt securities and may invest in senior loans which may be primarily below-investment-grade. High-yield securities, sometimes called junk bonds, carry increased risks of price volatility, illiquidity, and the possibility of default in timely payment of interest and expenses. The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. Convertible securities are subject to the risks affecting both equity and fixed-income securities, including market, credit, liquidity, and interest rate risk. These factors can affect Fund performance.

The Credit Opportunities Fund is newly organized. There can be no assurance that the Fund will reach or maintain a sufficient asset size to effectively implement its investment strategy.

A Note bout Risk

Credit Opportunities Fund: The Fund is subject to the general risks associated with investing in debt securities, including market, credit, liquidity, and interest rate risk. The Fund may invest in high-yield, lower-rated securities, sometimes called junk bonds. These securities carry increased risks of price volatility, illiquidity, and the possibility of default in the timely payment of interest and principal. The Fund may invest in debt securities of stressed and distressed issuers as well as in defaulted securities and debtor-in-possession financings. Distressed and defaulted instruments generally present the same risks as investment in below investment grade instruments. However, in most cases, these risks are of a greater magnitude because of the uncertainties of investing in an issuer undergoing financial distress. The Fund may invest in foreign or emerging market securities, which may be adversely affected by economic, political, or regulatory factors and subject to currency volatility and greater liquidity risk. The Fund may invest in derivatives, which are subject to greater liquidity, leverage, and counterparty risk. These factors can affect fund performance.

Because of the risks associated with the Fund's ability to invest in high yield securities, loans and related instruments and mortgage-related and other asset-backed instruments, foreign (including emerging market) securities (and related exposure to foreign currencies), and the Fund's ability to use leverage, an investment in the Fund should be considered speculative and involving a high degree of risk, including the risk of a substantial loss of investment.

The credit quality of the securities in a portfolio is assigned by a nationally recognized statistical rating organization (NRSRO), such as Standard & Poor's, Moody's, or Fitch, as an indication of an issuer's creditworthiness. Ratings range from 'AAA' (highest) to 'D' (lowest). Bonds rated 'BBB' or above are considered investment grade. Credit ratings 'BB' and below are lower-rated securities (junk bonds). High-yielding, non-investment-grade bonds (junk bonds) involve higher risks than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

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Investors should carefully consider the investment objectives, risks, charges, and expenses of the Lord Abbett Funds. This and other important information is contained in the fund's summary prospectus and/or prospectus. To obtain a prospectus or summary prospectus on any Lord Abbett mutual fund, contact your investment professional, Lord Abbett Distributor LLC at (888) 522-2388 or visit us at lordabbett.com. Read the prospectus carefully before you invest.

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Index Definitions

The **Bloomberg Barclays U.S. Treasury Index** is the U.S. Treasury component of the U.S. Government Index. The index includes public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The **Bloomberg Barclays U.S. Aggregate Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

The **Bloomberg Barclays U.S. Investment Grade Corporate Bond Index** includes all publicly held issued, fixed-rate, nonconvertible investment-grade corporate debt. The index is composed of both U.S. and Brady bonds.

The **Bloomberg Barclays U.S. Investment Grade Corporate Bond BBB-Rated Index** is a subset of the Bloomberg Barclays U.S. Investment Grade Corporate Bond Index, which includes only corporate bonds with a rating of Baa1, Baa2, or Baa3.

The **ICE BofA U.S. High Yield Index** tracks the performance of U.S. dollar denominated, below investment grade corporate debt publicly issued in the U.S. domestic market.

The **ICE BofA U.S. High Yield BB-Rated Index** tracks the performance of U.S. dollar denominated, below investment grade corporate debt publicly issued in the U.S. domestic market. It is a subset of the ICE BofA U.S. High Yield Index, which includes only corporate bonds with a rating of Ba1, Ba2, or Ba3.

The **ICE BofA U.S. High Yield B-Rated Index** tracks the performance of U.S. dollar denominated, below investment grade corporate debt publicly issued in the U.S. domestic market. It is a subset of the ICE BofA U.S. High Yield Index, which includes only corporate bonds with a rating of B1, B2, or B3.

The **ICE BofA U.S. High Yield CCC-Rated Index** tracks the performance of U.S. dollar denominated, below investment grade corporate debt publicly issued in the U.S. domestic market. It is a subset of the ICE BofA U.S. High Yield Index, which includes only corporate bonds with a rating of Caa1, Caa2, or Caa3.

The **Credit Suisse Leveraged Loan Index** is designed to mirror the investable universe of the U.S. dollar-denominated leveraged loan market.

The **Russell 1000 Index®** measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index.

The **ICE BofA All Convertibles, All Qualities Index** contains issues that have a greater than $50 million aggregate market value. The issues are U.S. dollar-denominated, sold into the U.S. market and publicly traded in the United States.

The **MSCI EM (Emerging Market) GR (Growth) Index** captures large and mid-cap securities exhibiting overall growth style characteristics across 26 Emerging Markets (EM) countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. EM countries include:

Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **Bloomberg Barclays U.S. MBS (Mortgage-Backed Securities) Index** is the U.S. MBS component of the Bloomberg Barclays U.S. Aggregate Bond index. The MBS Index covers the mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

The **FTSE Treasury Index** measure total returns for the current two-, three-, five-, seven-, ten-, and thirty-year on-the-run Treasuries that settle by the end of the calendar month. As a result of the reduced auction schedule for one-year Treasury bills, as of May 2000, the index team selects an existing coupon bond with approximately one year to maturity to use as the one-year benchmark. In most cases, this is an old two-year security.

The **FTSE WGBI (World Government Bond Index) Non-USD Index** measures the performance of fixed-rate, local currency, investment-grade sovereign bonds issued in developed markets. The Index composition is based on the global sovereign markets and constituents of the FTSE World Government Bond Index (WGBI), excluding any markets that are classified as emerging. A country is classified to be “emerging” if it is defined by the International Monetary Fund (IMF) World Economic Outlook to be among “emerging and developing economies” or if it is defined by the World Bank (WB) to be among “low-income economies” or “lower middle-income economies” or “upper-middle-income economies”.

The **MSCI EAFE GR (Growth) Index** captures large and mid-cap securities exhibiting overall growth style characteristics across Developed Markets countries around the world, excluding the U.S. and Canada. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend. Developed Markets countries include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future. The index is designed to be tradable, readily accessible to market participants, and cost efficient to implement.

The **ICE BofA U.S. Treasury Bill 3-month Index** is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date.

The **IA SBBI® (Ibbotson Associates Stocks, Bonds, Bills, and Inflation)** U.S. Inflation: The Consumer Price Index for All Urban Consumers (CPI-U), not seasonally adjusted, is used to measure inflation, which is the rate of change of consumer goods prices. Unfortunately, the CPI is not measured over the same period as the other asset returns. All of the security returns are measured from one month-end to the next month-end. CPI commodity prices are collected during the month. Thus, measured inflation rates lag the other series by about one-half month. Prior to January 1978, the CPI (as opposed to CPI-U) was used. For the period 1978 through 1987, the index uses the year 1967 in determining the items comprising the basket of goods. Following 1987, a three-year period, 1982 through 1984, was used to determine the items making up the basket of goods. All inflation measures are constructed by the U.S. Department of Labor, Bureau of Labor Statistics, Washington.

The **S&P GSCI Index** is the first major investable commodity index. It is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. The index is designed to be investable by including the most liquid commodity futures, and provides diversification with low correlations to other asset classes.